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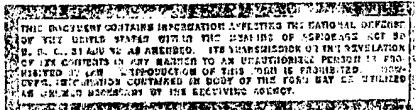
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THE NEW CHINESE CURRENCY AND THE INTERNATIONAL MONETARY FUND

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A. Introduction

With the reform of the currency, a new era in relation to foreign exchange began. China, as a member of the International Monetary Fund, has accepted her quota and appointed her directors, but because of economic instability and lack of fixed exchange rates cannot share in its operations. This is much to her disadvantage. Now with a regular rate settled, all that is needed is the Fund's permission for her to share in its duties and privileges.

B. Problem of the Exchange Rate

The chief aim of the Fund is to maintain stable exchange rates. However, a member nation may with the Fund's consent, change the par value of its currency, but the Fund may not change the par value of a nation's currency, unless that nation concurs.

This provision is intended to prevent unilateral action and to state plainly that repudiation is an exceptional measure. Yet the Fund agreement allows much liberty to the individual nation, especially in the postwar transition period.

This flexibility is a real benefit to us at this time. But it must be remembered that stability of exchange is still the chief aim of the Fund. The stabilization of the foreign value of our currency is still a weighty problem, and an important key as to whether China can get Fund assistance.

Is the exchange value of the new currency correct? And how can the exchange value be revised to fit the changing conditions of the domestic economy? Here are a few considerations which show the complexity of the problem:

1. The exchange value of the new currency generally follows the free market value of gold bars. Before the reform there was a certain relationship

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between the price of gold and that of merchandise, was not one based on principle. There is quite a difference between the exchange value of the new currency and its real buying power. This must be remedied by a realistic policy.

2. A study of the domestic price level must not be kept apart from that of wages and inflated currency. Either prices or exchange costs must be revised to correct the deterioration of China's domestic economy; also it would seem better to sacrifice exchange stability than prices. Under the international agreement, however, a just revision of the former involves much discussion.

3. If a big price must be paid in unemployment for a rate-fixing policy, stabilization should be avoided. Otherwise, rate control may become necessary.

4. The elasticity of world demand for China's products (and her demand for world goods) is very difficult to forecast; yet the related forces between supply and demand are powerful factors in deciding relative exchange values; more powerful than the buying power level. A lack of supply of our goods on the world's markets may arise because of a shortage of international currency reserve. This will injure her trade position and nearly destroy the exchange value of her currency. Therefore, every method must be employed to improve her position in international trade.

5. Unilateral payments in foreign trade are also an important question, related to the flight of capital. When such payments destroy the trade balance, the exchange rate is difficult to stabilize.

The questions raised by China's entry into the Fund are both weighty and complex. Lack of care in handling them will not merely harm her good name and credit in the Fund, but also have a bad effect on her domestic economy. They must be handled on sound principles and with scientific method.

C. Problem of Exchange Control

For China at the present time, there should be a moderate control of exchange, because:

1. Domestic price control is intimately related to it.
2. Casting aside such control is not merely troublesome but also very risky. In doing away with it, we must rely on full assistance from the Fund and other bodies.
3. An initial tentative exchange value cannot be viewed as the genuine one. If controls are suddenly lifted, not only will domestic economy be badly shaken, but there will be danger of a large-scale flight of capital.

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